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FARMERS' NEWSLETTER

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January 79/W-7

Wheat

APR 3 '79

 PROCUREMENT SECTION
 CURRENT SERIAL RECORDS


U. S. wheat prices recently reached their highest level in 2 years despite record world supplies. It's because of several factors, including a roughly 12-percent smaller 1978 U.S. harvest, 400 million bushels of wheat in the farmer-owned grain reserve, and a slow pace of farmer marketing.

Looking at the months ahead, we see these pricemaking factors:

- "Free" supplies of wheat have declined. U.S. carryover stocks next June 1 are forecast at just over 1 billion bushels, about 200 million bushels less than last year. Farmer-owned reserves and CCC stocks will account for about 465 million bushels. Another 200 million bushels are under loan. Some will be redeemed, and "free" stocks will be about 350 million bushels.

- While total supplies of wheat have exceeded foreseeable demands, the supply of Soft Red Winter wheat has been tight. The relative shortage is reflected in the current premium price for soft wheat. In late December, Soft Red Winter wheat in Chicago

averaged \$3.58 per bushel, 24 cents higher than Hard Red Winter at Kansas City. A year earlier, soft wheat at Chicago was 13 cents lower than the quotation for hard wheat at Kansas City.

- The rapid pace of wheat exports will slow as large crops in the Southern Hemisphere begin entering the world market. Combines are rolling now in Australia and Argentina. Also, Western European countries harvested a large crop and are pushing subsidized exports in competition with U. S. wheat.

U.S. Wheat Supplies and Use

Item	1976/77 Recorded	1977/78 Estimated	1978/79 Forecast
Million bushels			
Supply			
Beginning stocks	665	1,112	1,176
Production	2,142	2,036	1,799
Imports	3	2	2
Total supply	2,810	3,150	2,977
Utilization			
Food	588	586	585±10
Seed	92	80	80±5
Feed	68	184	125±50
Exports	950	1,124	1,150±100
Total disappearance	1,698	1,974	1,940±150
Ending stocks	1,112	1,176	1,037±150
Average farm price	\$2.73	\$2.31	\$2.80-3.00

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Principal contributor to this issue: Thomas E. Elam,
(202) 447-8636.

- Known sales of 1978-crop wheat to the People's Republic of China for delivery before June 1 total about 125 million bushels, and sales for shipment after June 1 now stand at about 35 million bushels. Additional sales are expected. Volume will depend to some extent on the size of the 1979 Chinese crop, and competition from other wheat exporters. Chinese purchases have definitely helped maintain U. S. wheat exports and prices over the last few months. China apparently will be a steady customer for U. S. wheat for at least the next several years.

- After 2 years of declining output in the U. S., wheat production is expected to rise in 1979. The USDA Winter Wheat Seedings report, issued in December, said farmers planted 51.5 million acres to winter wheat, 8 percent more than a year ago. Yields were forecast to improve too, and the production forecast was for a 15-percent larger crop of winter wheat. Based on past experience, and taking into account weather uncertainties, there is a 90-percent chance that production will fall between 1.25 billion and 1.63 billion bushels.

It also appears that spring wheat acreage will increase. The first indication was in our planting intention report, issued January 22 after this letter was printed.

- Balance out supply and demand forces, and you can look for U. S. wheat prices to average between \$2.80 and \$3 per bushel in 1978-79. The average has run about \$2.90 since last June, and fairly steady prices can be expected over the next few months.

After that, prices will depend to a large extent on the size of the 1979

world crop. But with larger U. S. plantings for 1979 and the big Southern Hemisphere crop now being harvested, it looks as if average prices could sag slightly from current levels. However, this outlook will change as actual 1979 grain production shapes up.

World Wheat Output a Record

Although U. S. producers harvested a smaller crop in 1978, world wheat output reached a new high of 15.6 billion bushels in 1978-79, up 2 percent over 1977-78. Aided by good weather, the USSR, the European Community, India, Canada, Argentina, and Australia all took in larger crops. Wheat harvests were reduced in Eastern Europe.

World wheat production exceeds usage, so stocks will be rising. What could these abundant world supplies mean to the U. S. wheat economy in the near future? Some possibilities:

- Aggressive worldwide competition for all food grain export markets for the next year or so.

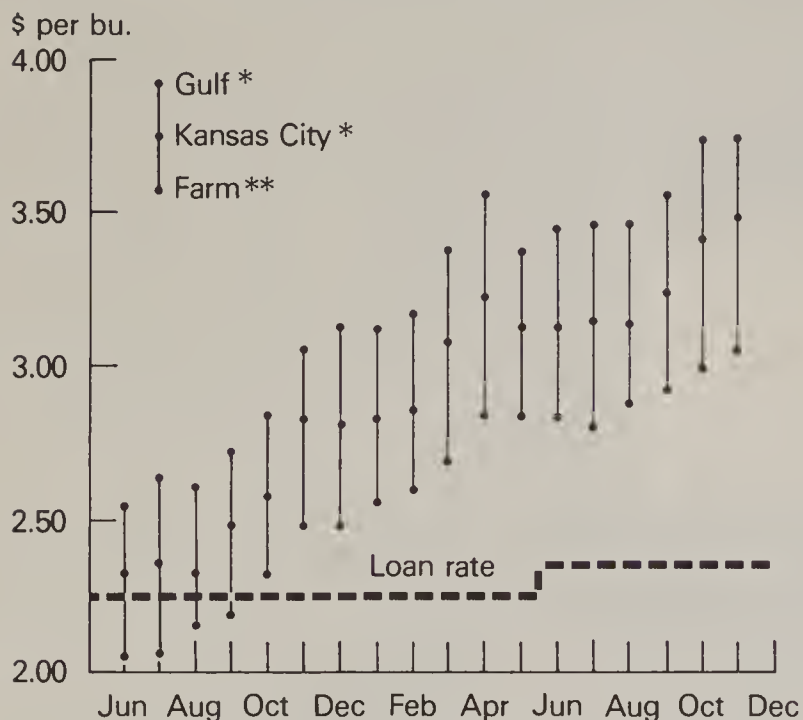
- A possible impetus for a compromise on an international wheat agreement due to the current buildup of global food grain stocks.

- A reduced likelihood of dipping into the farmer-owned reserve.

Deficiency Payments Add to Farmer Income

By law, eligible farmers get deficiency payments when the average market price during the first 5 months of the marketing year falls below the target price. For 1978, wheat growers who participated in

Wheat Prices: Gulf, Kansas City and Farm, June 1977—Nov. 1978



* No. 1 Hard Winter, ordinary protein. ** Average price received by U.S. farmers.
November 1978 data compiled only to November 15.

the acreage set-aside program are receiving a deficiency payment of 52 cents per bushel on their 1978 crop. Total payments for the 1978 wheat crop will be around \$620 million, down from \$1 billion on the 1977 crop. The smaller payout is due to higher market prices and less eligible acreage. Checks started going out around December 15. Here's how a typical payment was calculated:

USDA's Crop Reporting Board indicated that during the first 5 months of the marketing year, wheat producers realized an average price of \$2.88 a bushel. That figure was subtracted from the \$3.40 target price to arrive at a 52-cents-per-bushel deficiency payment rate.

The payment rate was then multiplied by the acreage planted for harvest, times the allocation factor (100 percent for the 1978 crop) times the program yield, to obtain the deficiency payment for each eligible farm. For example, the deficiency payment for an eligible wheat farmer who harvested 100 acres with a program

yield of 30 bushels per acre would be \$1,560, or $\$0.52 \times 100 \times 1.00 \times 30$.

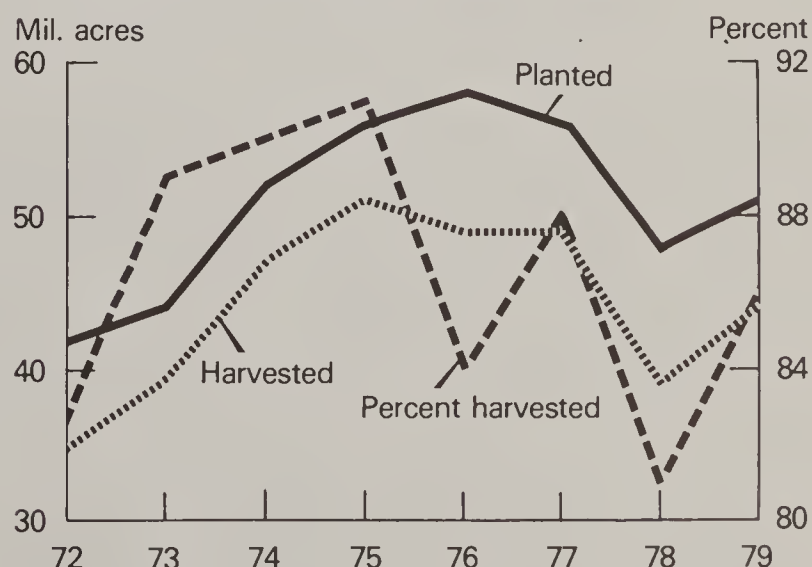
1979 Wheat Program Benefits

It's your decision whether to participate in the 1979 Wheat Program. Many of you have already decided to limit plantings, while others are waiting until spring. A key factor will be the amount of deficiency payment benefits you expect from the program. Deficiency payments depend on average market prices for the first 5 months of the marketing year. The program also has loan features and disaster payment benefits to consider. A sample calculation is provided in this newsletter to help you figure the payment you might receive under the program.

Agricultural Census Coming

All farmers and ranchers soon will have an opportunity to contribute data that will be the basis for important planning decisions in the years ahead. We urge you to take a few minutes of your time during the relatively slow winter season to complete the U. S. Department of Com-

Winter Wheat: Acreage Planted and Harvested



1978 preliminary. 1979 indicated as of December 1.

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merce's 1978 Census of Agriculture survey form, which you should be receiving soon. By doing so, you

will help provide the facts and figures that will show the current state of America's agriculture. As an operator of one of the nation's farming or ranching businesses, you have a definite stake in this Census.

Calculation of Wheat Program Payments for 1979

	Example	Your Farm
(1) Acreage Harvested	200	_____
(2) Program Yield	30	_____
(3) Eligible Production	6,000	_____
(4) Allocation Factor	¹ 100%	_____
(5) Target Price	\$3.40	\$3.40
(6) First Five Months Average Price Received	² \$2.80	_____
(7) Deficiency Payment Rate ³ (6)-(5)	\$.60	_____
(8) Deficiency Payment = (3) x (4) x (7)	\$3,600	_____

¹ Assumed - actual figure will be announced Fall, 1979.
² For illustration only. Not a forecast. ³ Maximum of \$1.05.

MORE WHEAT FACTS FREE

A comprehensive review of the current wheat outlook and situation can help you make your best marketing decisions. In addition to this newsletter, USDA's quarterly Wheat Situation report can help. And it's free. To be added to the mailing list, just write to ESCS Information, Room 0054-S, U. S. Department of Agriculture, Washington, D. C. 20250

WATCH THE OUTLOOK SIGNALS

Several reports to be released over the next couple of months will help you with your production and marketing decisions. Watch for the following:

- Prospective Plantings: January 22.
- Grain Stocks; Rice Stocks: January 25.
- Ag Supply & Demand: January 26.
- Wheat Situation: February 12.

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